



**Investment Office**

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March 16, 2009

**AGENDA ITEM 10b**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** International Fund Services Contract Renewal
- II. PROGRAM:** Risk Managed Absolute Return Strategies Program
- III. RECOMMENDATION:**
  - 1. Approve renewal of contract with International Fund Services for the portfolio management platform used by CalPERS' Risk Managed Absolute Return Strategies Program.
  - 2. Delegate staff the authority to independently monitor the performance of International Fund Services going forward.

**IV. ANALYSIS:**

The International Fund Services (IFS) platform was originally approved by the Committee during the February 18, 2003 Investment Committee meeting. The 2003 agenda item included a request for approval based on the "Best Business Practices" exemption from competitive selection. At the November 14, 2005 Investment Committee meeting, the Committee approved renewal of the IFS contract, and approved converting the contract to an annual review, no defined duration vehicle. The Committee also requested the contract be brought back to the Committee for review no less than once every three years.

The Risk Managed Absolute Return Strategies Program (RMARS) uses IFS as the administrator for the hedge fund program. The IFS integrated platform includes fund accounting, risk reporting, data management, and performance analytics. The IFS platform assists staff in monitoring risks associated with investing in hedge funds, and helps staff enhance program returns. IFS integrates a variety of services that typically would be obtained from various

outside providers. The IFS platform allows RMARS and CalPERS to leverage resources in managing a program with distinct needs.

Staff is satisfied with the services provided to date. When IFS was first implemented, it was a subsidiary of State Street Bank and considered one of the best choices available among the top-rated hedge fund administrators. For the past six years, IFS has met staff's needs in both the timeliness of the platform and the quality of the tools provided to CalPERS and the RMARS Program.

The fee structure for the IFS platform includes components for the direct hedge fund investments, fund of fund portfolios, administration and risk management. The cost of the IFS platform is approximately \$1.7 million per year. The cost has been reduced over time, based on the metric of assets under management. When the fund was a \$1.5 billion portfolio, the IFS platform cost approximately 6 basis points a year. Now with the portfolio at \$6.4 billion, the IFS platform cost approximately 3 basis points per year. The cost of the program includes administering the direct hedge fund book, administering the nine fund of fund portfolios, an on-site IFS representative, the risk analytics and the risk reporting system.

It is important for the Committee to know that a Termination at Option clause is included in the contract that allows CalPERS to terminate the agreement with 30 days notice, for any reason. Staff will regularly monitor the market to determine the progress made by other hedge fund administrators to ensure CalPERS is using the best provider at the fairest rate.

Staff is requesting approval from the Committee to renew the contract with IFS. Staff is also seeking direction from the Committee on whether staff can be delegated authority to independently monitor the performance of IFS and bring it back to the Committee on an as needed basis, rather than a set period of time.

## **V. STRATEGIC PLAN:**

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits, and second, to minimize and stabilize contributions.

Goal IX: Achieve long-term, risk-adjusted returns.

## **VI. RESULTS/COSTS:**

The purpose of this item is to keep the Investment Committee informed of the systems used in managing the Risk Managed Absolute Return Program.

Continuing the existing IFS contract will maintain the continuity of the portfolio management platform for the RMARS Program.

The current annual cost of the IFS contract is approximately \$1.7 million, which is less than 3 basis points a year on a \$6.4 billion portfolio. In prior years, with fewer assets under management, the IFS contract equated to a little less than 6 basis points a year. Going forward, the cost of the IFS contract is expected to increase modestly due to an increase in the number of hedge funds in the RMARS Program, and additional tools incorporated into the platform. Staff estimates the cost to administer the RMARS Program over the next few years will be fewer than 5 basis points, on average, per year.

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